Congress of the United States
Washington, DC 20515

August 12, 2024

The Honorable Andrew M. Mais
President
National Association of Insurance Commissioners
1101 K St NW
Washington, DC 20005

Dear Commissioner Mais:

Last June, in response to Executive Order 14030, the Treasury Department's Federal Insurance Office (FIO) released a report identifying climate-related gaps in state supervision and regulation of insurers.[1] The FIO made 20 recommendations for how state regulators and the National Association of Insurance Commissioners (NAIC) can fill these gaps. Given the NAIC's role as an organization governed by insurance commissioners and one that develops model legislation, regulations, and best practices for states to consider adopting, we write to inquire about the status of the NAIC's adoption of the 18 relevant recommendations made by the FIO around integrating climate-related financial risks into U.S. insurance supervision and regulation (further outlined below).

The Financial Stability Oversight Council (FSOC) asserted in 2021 that "climate change is an emerging threat to the financial stability of the United States."[2] Since then, Treasury Secretary Janet Yellen, Chair of the FSOC, has flagged concerning trends in the insurance markets.[3] The New York Times reported that climate disasters are causing insurance markets to become stressed not just in coastal states, but in many Midwestern states with growing damages from hail storms and other climate impacts.[4] In fact, in response to rising insured losses due to climate change, large home insurers are requesting significant rate increases from state insurance commissioners across the country, increasing policy exclusions, avoiding renewals in unprofitable markets, and implementing higher deductibles in areas with substantial exposure to climate events.[5] Meanwhile, as private insurers increasingly exit certain markets, state-based "insurers of last resort" have expanded, including in states like California, Louisiana, and Florida.[6] The FSOC's 2023 annual report warned that "the increasing frequency and severity of extreme weather can affect the solvency of insurers and the cost and availability of coverage for homeowners and businesses." This, in turn, "could affect mortgage markets and house prices and could potentially generate larger economic spillover effects."[7] The spillover from property insurance to both the mortgage and real estate markets has been identified as a significant risk by Freddie Mac.[8]

Indeed, we are already seeing the implications of the insurance crisis spilling over into various segments of the economy. Earlier this year, Federal Reserve Chair Jerome Powell shared with Congress that rising insurance costs were producing continued inflationary pressures.[9] The President of Aon recently testified that "[j]ust as the U.S. economy was overexposed to mortgage risk in 2008, the economy today is overexposed to

[1] Federal Insurance Office, U.S. Department of the Treasury, *Insurance Supervision and Regulation of Climate-Related Risks* (June 2023), https://home.treasury.gov/system/files/136/FIO-June-2023-Insurance-Supervision-and-Regulation-of-Climate-Related-Risks.pdf.

[2] Financial Stability Oversight Council, *Report on Climate-Related Financial Risk* (October 2021), 3, https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.

[3] Christopher Condon, "Yellen Says Extreme Weather Exposes Gaps in Insurance Protection" (July 2023), https://www.bloomberg.com/news/articles/2023-07-28/treasury-s-yellen-says-extreme-weather-exposes-gaps-in-insurance-protection.

[4] The New York Times, *As Insurers Around the U.S. Bleed Cash From Climate Shocks, Homeowners Lose* (May 13, 2024).

[5] Financial Stability Oversight Council, *Annual Report 2023* (December 2023), 9, https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.

[6] Marketplace, *Safety net home insurance plans are becoming the only option for many in disaster-prone states* (May 20, 2024).

[7] *Id.*

[8] Freddie Mac Insight, "Life's a Beach" (April 26, 2016), https://www.freddiemac.com/research/insight/20160426-lifes-a-beach.

climate risk."[10] In fact, Harvard Business School professor, Ishita Sen, recently argued that risk-based capital requirements need to be adjusted to incorporate climate risk.[11] Professor Sen's research affirms a vital recommendation from the FIO that falls squarely within the jurisdiction of the NAIC's capital adequacy task force. The insurance crisis is also compounding our nation's worsening housing crisis. For example, a coalition of 24 private, for-profit and non-profit housing developers wrote to Congress and President Biden to express their concern that insurance market volatility is threatening the availability and affordability of housing markets nationally.[12] In fact, some nonprofit affordable housing developers have experienced 300-450% insurance cost increases that have completely halted development projects.[13]

Given these factors and the NAIC's standard-setting role in insurance, we ask that you please share, by no later than August 26, 2024, what the NAIC has done, or what it plans to do, to implement the FIO's recommendations, or to otherwise strengthen insurance supervision and regulation to better address climate-related financial risks. We have appended FIO's 18 recommendations for your reference.

We thank you for your attention to this urgent matter. The FIO's recommendations represent a helpful roadmap, and we look forward to learning about the NAIC's efforts in leading State regulators toward the strongest possible standards for integrating climate risk into insurance regulation.

Sincerely,

Sean Casten
Member of Congress

Maxine Waters
Ranking Member, Committee on Financial Services

Sheldon Whitehouse
United States Senator

cc: The Honorable Patrick McHenry, Chair, House Committee on Financial Services
John Godfread, President-Elect, NAIC
Scott A. White, Vice President, NAIC
Andrew Beal, Acting Chief Executive Officer, NAIC
Lori K. Wing-Heier, Climate and Resilience Task Force Co-Chair, NAIC
Ricardo Lara, Climate and Resilience Task Co-Chair, NAIC
Andrew R. Stolfi, Climate and Resilience Task Co-Vice Chair, NAIC
Jeff Rude, Climate and Resilience Task Co-Vice Chair, NAIC

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[9] *The New York Times*, "Insurance Costs Are Pushing Up Overall Inflation" (March 2024), https://www.nytimes.com/2024/03/12/business/insurance-inflation.html

[10] Testimony of Eric Andersen, President of Aon, Senate Budget Committee Hearing, "Risky Business: How Climate Change is Changing Insurance Markets" (March 2023), https://www.budget.senate.gov/imo/media/doc/Mr.%20Eric%20Andersen%20-%20Testimony%20-%20Senate%20Budget%20Committee.pdf

[11] Testimony of Ishita Sen, Assistant Professor of Finance Harvard Business School, Senate Budget Committee Hearing, "Riskier Business: How Climate is Already Challenging Insurance Markets" (June 2024), https://www.budget.senate.gov/imo/media/doc/drishitasensenatebudgetcommitteetestimony.pdf

[12] *Letter from housing developer coalition to Congress and President Joseph R. Biden* (Jun. 10, 2024).

[13] Enterprise, *Affordable Housing Providers Face Growing Insurance Challenges* (Feb. 21, 2024).

Appendix: FIO's 18 Recommendations for NAIC

1. State insurance regulators and the NAIC should build on the initial steps they have taken and expand their work on climate-related risks in order to promote increased regulatory uniformity among the states in considering such risks. The NAIC also should identify best practices in the state insurance regulatory community and encourage states to adopt these practices.

2. To encourage increased focus on the impact of climate-related risks on insurers' strategic planning and related processes, the NAIC and state insurance regulators should provide guidance on and encourage insurers to implement climate risk monitoring, and to report to regulators, in a uniform manner, on the impact of climate-related risks on their strategic processes.

3. The NAIC should revise the *Financial Analysis Handbook* to recommend, and states should require, that financial analysts and lead state analysts integrate climate-related considerations into their analysis. Additionally, the NAIC should provide guidance, and the NAIC and state insurance regulators should provide training, for financial analysts and lead state analysts on how to evaluate assumptions and methodologies used in climate-related forward-looking analysis.

4. The NAIC and state insurance regulators, in coordination with the insurance industry, should continue considering charges in Risk-Based Capital (RBC) formulas for floods, convective storms, and other climate-related risks.

5. The NAIC should adopt, and state insurance regulators should implement, the proposed enhancements to the *Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) and require insurers to incorporate climate-related risks into both ORSAs and ORSA Summary Reports.[14] If an insurer does not consider climate-related risks to be material to its business, its regulator should require the insurer's ORSA Summary Report to explain why and to include support for its rationale based on applicable financial or quantitative measures.

6. The NAIC and state insurance regulators should adopt a single standard for defining "materiality" for climate-related risks to be used in the ORSA Summary Report to provide more comparable information. The NAIC and state insurance regulators should also adopt a single standard for defining "materiality" for climate-related risks to be used in the NAIC *Climate Risk Disclosure Survey* in order to obtain more consistent information across disclosures.[15]

7. The NAIC should finalize and adopt, and state insurance regulators should implement, the proposed climate-related enhancements to the *Financial Condition Examiners Handbook* (Examiners Handbook) to ensure that climate-related risks are considered in every financial condition examination.[16] The NAIC should provide sample questions and other guidance on when examiners should ask climate-related questions. The NAIC should monitor state financial condition examinations to determine which climate-

[14] NAIC, *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (December 2022), https://content.naic.org/sites/default/files/inline-files/naic-orsa-guidance-manual-final_0.pdf.

[15] NAIC, *Proposed Redesigned NAIC Climate Risk Disclosure Survey* (March 2022), 3, https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf.

[16] NAIC, *Financial Condition Examiners Handbook* (2022), available through https://content.naic.org/cmte_e_fehtg.htm.

related questions provided in the Examiners Handbook are asked and the types of responses provided to those questions, and periodically summarize its findings in a public report.

8. The NAIC should continue to refine the capabilities and role of the Catastrophe (CAT) Modeling Center of Excellence by incorporating climate-related risk considerations so that it can be used more effectively by state insurance regulators to enhance assessment and supervision of insurers' climate-related risks. To enable sharing of resources among state insurance regulators, the Center should develop a platform for access to models, methodologies, and related data. The NAIC should regularly produce public reports on key findings identified by state insurance regulators using the Center to monitor climate-related risks.

9. The NAIC and state insurance regulators should prioritize their work on scenario analysis for climate-related risks, initially as a capacity building exercise for large insurers. Future NAIC work should include developing a pilot analysis with defined scenarios and assumptions for insurers to run and submit to regulators, commensurate with an insurer's size, complexity, business activity, and risk profile.

10. The NAIC should incorporate climate-related risks in future Macroprudential Risk Assessments and these assessments should include additional detail on climate-related risks specific to insurer underwriting and investments.

11. State insurance regulators and the NAIC should monitor the availability of reinsurance for climate-related risks and consider whether market hardening or other constraints will adversely affect insurer solvency.

12. The NAIC should encourage consideration of climate-related risks by participants in supervisory colleges, and it should develop guidance to assist regulators when conducting such supervisory college engagements.

13. State insurance regulators and the NAIC should increase their work with the National Council of Insurance Legislators, state legislatures, and state guaranty associations to improve their ability to quantify potential climate-related risks for state guaranty funds and to better understand potential exposures from climate-related disasters for insurers, policyholders, and state governments.

14. All state insurance regulators and the NAIC should monitor growth and other trends in residual and surplus lines markets, and publicly report on how climate-related risks are currently affecting, and in the future may affect, these markets.

15. The NAIC, state insurance regulators, the insurance industry, FIO, the Financial Literacy and Education Commission (FLEC), and other partners should work together to increase consumer education and outreach regarding what climate-related risks are (and are not) commonly covered under personal lines of insurance and take steps to increase public awareness of the nature and magnitude of climate-related risks. They also should continue encouraging consumers to take advantage of educational and outreach programs in markets vulnerable to climate change, including programs relating to the value of, and

opportunities for, pre-disaster mitigation investments in property resilience. Public-private partnerships with the insurance industry can aid this educational effort.

16. State insurance regulators and the NAIC should continue using existing frameworks for their post-disaster response efforts, including their focus on fair and efficient resolution of claims. In addition, the NAIC and state insurance regulators should conduct more post-disaster surveys to assess the claims resolution process, particularly with regard to whether insurers are fulfilling their obligations in a fair and efficient manner.

17. The NAIC and state insurance regulators should support efforts to improve climate-related disclosures by the insurance industry, as analytical capabilities and best practices further develop. All state insurance regulators should adopt the NAIC *Climate Risk Disclosure Survey*. The NAIC should continue monitoring responses to its *Climate Risk Disclosure Survey* and publish an annual quantitative report summarizing the Survey results and addressing how well the Survey is fulfilling its six purposes.

18. The NAIC should consider revising its *Climate Risk Disclosure Survey* over the next several years to incorporate more prescriptive elements, including around quantitative financial impacts, scenario analysis, and consistent metrics and targets, with the goals of enhancing: (a) transparency about how insurers manage climate-related risks and opportunities, (b) the identification of good practices and vulnerabilities, and (c) the assessment of how climate-related risks are affecting the insurance industry.